

NO  
2422  
A7  
1920

UC-NRLF



\$B 47 111

DOCUMENTS  
DEPT.

YC 35628







*1/4 6d Sep 1919  
new*

# REPORT

OF THE

## Commission to Investigate Tax Laws

---

STATE OF NEW JERSEY

1919

---

TRENTON, N. J.

MACCRELLISH & QUIGLEY CO., STATE PRINTERS.

1920



# REPORT

OF THE

## Commission to Investigate Tax Laws

---

STATE OF NEW JERSEY

1919

---

FRANK B. JESS, Chairman, Haddon Heights

CLARENCE E. CASE, Somerville

ARTHUR N. PIERSON, Westfield

GEORGE L. RECORD, Jersey City

GEORGE T. SMITH, Jersey City

---

FRANK D. SCHROTH, Secretary

---

TRENTON, N. J.

MACCRELLISH & QUIGLEY Co., STATE PRINTERS.

---

1920

Doc Coll

2



# Report of the Commission to Investigate Tax Laws.

---

*To the Governor and the Legislature of New Jersey:*

The Commission appointed in pursuance of Joint Resolution No. 1, of the 1919 Session of the Legislature, to "investigate the operations and effect of the tax laws of this State and to recommend legislation essential to an equitable, just and adequate system of taxation," herewith submit their report:

The Commission have made a thorough study of the system of taxation in New Jersey, with respect both to its bases and its practical operation. We have also investigated the systems of several other States in which we had reason to believe progress has been made in the solution of problems similar to those with which we have to deal. The views and suggestions have been sought of those who had a prominent part in the framing of recent advanced taxing legislation, as well as of those officials who have been charged with the duty of putting these new laws into operation. The Commission visited the city of Pittsburgh, for the purpose of ascertaining at first hand the effects of the graded tax, as applied to buildings in that city and in Scranton, under the law passed a few years ago by the Legislature of Pennsylvania. We have had numerous meetings and conferences, at which there has been full consideration of the data and information collated by the Commission, and the freest discussion of the taxing problem in all of its chief phases. Varied points of view have been represented at these conferences, and an earnest effort has been made to reconcile conflicting opinions, with the hope of reaching a common agreement upon essential principles. It has not been possible to attain this result, but this report embodies the conclusions of a majority of the Commission.

Public hearings were held by the Commission in Jersey City, Newark, Paterson, Trenton and Camden. The newspapers of the State co-operated cordially with the Commission by giving

advance notices of all hearings and by reporting its proceedings, with the result that popular interest in the subject of taxation was greatly stimulated. Indeed, the Commission have been deeply impressed with the fact that the people of the State probably never before more clearly recognized the important place that taxation occupies in our governmental system, or were more keenly alive to the need for real reform in our methods of raising public revenues. This has been evidenced, not only by the views expressed at our hearings and in the many letters and recommendations we have received, but by the attention given to the subject by organizations representing important business and industrial interests, and by the widespread discussion of the theme in the public press. The Jersey City Chamber of Commerce, for example, appointed a special committee on taxation, and sent a representative to the National Tax Conference, held in Chicago in June. This committee, after an exhaustive study of the subject, submitted to the Chamber a report recommending radical changes in our taxing system. The Manufacturers' Association of New Jersey, at its annual convention in May last, gave taxation a prominent part in its program, and provided for a committee to study the subject and report its recommendations. Other important organizations and civic societies have likewise manifested their interest in this vital subject. It is undoubtedly true that there is a sentiment in the State in favor of a thorough overhauling of our whole scheme of taxation, to the end that there may be a more equitable distribution of the tax burden.

The Commission, therefore, has approached the preparation of this report with a deep sense of responsibility, and with a full realization of the opportunity presented to perform a valuable public service.

The system of taxation in New Jersey is based upon the principle of the general property tax. The theory of this tax is that all property, except that which is expressly exempted, shall be assessed upon the *ad valorem* plan, upon the basis of market value, and that uniform rates of taxation shall be applied to the valuations thus determined.

The power of the Legislature to devise ways and means of raising revenues for the support of government is co-extensive

with the sovereignty of the State, subject only to such limitations at the Constitution may impose. The Constitution has left to the Legislature wide latitude in dealing with the function of taxation. The first Constitution, adopted in 1787, was silent upon the subject. The Constitution as amended in 1844 likewise contained no provision with respect to taxation. It was not until later that an amendment was approved which was incorporated as a part of the Constitution, as paragraph 12, section VII, of article IV, which provides that "property shall be assessed for taxes under general laws, and by uniform rules, according to its true value."

It will be noticed that the constitutional restriction thus imposed upon the legislative power of taxation relates only to property. The sovereign right of the people, through the Legislature, to select the sources of public revenue, thus is left unrestrained. The only limitation is that in the taxation of property there shall be equality and uniformity, and that the basis of assessment shall be true value.

The power of the Legislature to classify property for taxation and to impose taxes of a special kind, for example, franchise taxes, has been established by judicial decisions. The earliest legislative attempt at classification and the application of a special rate to a portion of the class resulted in the Railroad Tax Acts, which were sustained by the highest judicial authority and are still in successful operation. The most recent example of classification is furnished by the act which segregates bank stock for taxation and applies a flat rate to the value of the shares. The Franchise Taxes, which are an important feature of the State's fiscal scheme, are another illustration of the legislative power to select sources of revenue without constitutional restriction.

It will thus be seen that our adherence to the general property tax as the chief means of raising the revenue needed for local government is due, not to necessity, but to choice or inertia. It may be stated as a fact which cannot be controverted that reliance upon the general property tax is the chief cause of the inequalities and unsatisfactory operation of our taxing system.



Our experience with this tax has not differed from that of other jurisdictions. The property tax as a fiscal device has great antiquity to commend it, but nowhere, except in Switzerland and in most of the American States, is it still relied upon as a principal tax. As a supplementary tax it continues to have an important place in European fiscal systems, but as a sole reliance it is almost obsolete in Europe, and as such is falling into increasing disfavor in this country. All administrators and all students of taxation concede that as a means of equitable taxation it has broken down and is a complete failure.

That the present system of taxation in New Jersey, based upon the general property tax, is inherently and seriously defective has long been recognized.

The Commission to Investigate Tax Assessments, appointed in 1912, reported:

"However well it (the general property tax) may have worked in early days it has broken down here as everywhere under modern industrial conditions. To assess and tax every kind of property, real and personal, by the same rule and at the same rate, is not an equitable method of measuring contributions to the public revenue. Such a plan leaves out of account the relative value of benefits received or privileges enjoyed from government by different kinds of property."

President Wilson, in his message, as Governor of New Jersey, to the Legislature of 1912, said:

"Along with this systematic reconsideration of our methods of assessment and taxation should go a very thorough examination of our tax system itself, its basis and principle. Perhaps we shall be in a better position after making our machinery suitable and adequate, to discover the weak places, in the bases of taxation. Sooner or later we shall be obliged to examine them to the bottom."

Governor Fielder declared in his 1915 message:

"I know that the great majority of our citizens are willing to bear their just share of the fair cost of government, but they rightfully object to excessive expenses and inequality in assessment. \* \* \* I renew my recommendations that assessors be no longer elected, but be appointed under Civil Service rules

for assessment districts; that they be paid proper salaries; that their assessments be made under uniform rules to be prepared by some higher tax authority."

Governor Edge, discussing taxation in his first message, said: "The question, or rather its inequalities, is becoming, as government costs ascend, more and more serious."

Governor Runyon, in an address delivered before a conference of tax officials, spoke as follows:

"Funds are to be raised, moneys are made necessary absolutely, and they must from henceforth, I think, be raised from some new source, or else there must be a readjustment of the revenues from the old sources."

#### PERSONAL PROPERTY TAX.

The worst fruits of the general property tax are produced in its application to personal property. It is in this field that it breaks down most completely. Here its capacity to work inequality is most signally exemplified. As a means of measuring taxable ability or determining taxable liability, it is a lamentable failure.

All authorities on taxation are in accord with Professor R. A. Seligman, the eminent expert in economics, when he says: "Under modern economic conditions, property, and especially personal property, is no longer a satisfactory index of taxpaying ability. Wealth in modern times is derived to a continually larger extent from relations, from opportunities, and from all manner of exertion more or less indirectly, or not at all, connected with property."

The fundamental shortcomings of the personal property tax are chiefly that it cannot be administered so as to do justice to all taxpayers, and that as a measure of taxpaying ability it is inexact, inequitable and unscientific.

One of the chief difficulties of administration of this tax is that it imposes an impossible task upon the assessor. It requires that he must be able to go into the average home and appraise its household goods. When he comes to the homes of the wealthy,

he must be an authority upon painting and sculpture and tell at a glance what a picture or a piece of statuary would sell for in the market. He must also have an accurate acquaintance with the market prices of rugs, tapestries and window draperies. He must have an expert knowledge of the value of jewelry and precious stones. He must be able to determine what it would cost to reproduce an electric light, gas or trolley plant. He must know the market quotations on textile and other machinery used in manufacturing. He must have an accurate knowledge of the value of raw material and the finished products of manufacturing industries and of the merchandise of the grocer, the butcher, the clothing merchant, the department store. He must know the market price of stocks and bonds and other securities, and have a sufficient knowledge of the law and judicial decisions to determine which of them are subject to taxation. He must know besides, a great deal else that no one man ever can know. Assuming that one possessing all of these qualifications could be found, the problem would be, first, to induce him to accept the office of assessor, with its meagre pay and uncertain tenure, and second, to get him elected or appointed to the position.

In our State, the personal property tax lends itself to the grossest kind of discrimination and the production of the most glaring inequalities. At the hearings held by the Commission, there was practical unanimity of opinion upon one point, and that was in condemning the personal property tax. Spokesmen for business and industrial interests especially were strong in their condemnation.

Only two methods are worthy of serious consideration in the attempt to deal effectively with this phase of the taxing problem. One is that of classifying personal property for the purpose of taxation; the other is that of putting a personal income tax in place of the personal property tax.

The first method is a palliative. It would be a step in advance. If personal property is to be taxed at all, it ought to be classified for taxation, that is, certain kinds of personal property should be taxed in a special way at a special rate. The experience of other States, where this reform has been adopted, affords no



basis for the hope that a classified property tax would greatly ameliorate present conditions. We were unable to find any instance where classification had produced satisfactory results with respect to the taxation of intangible property.

#### INCOME TAX.

The second remedy suggested, namely, the substituting of income for personal property as the basis of taxation is infinitely to be preferred to the plan of classification. The personal income tax is a much more certain, effective and equitable method of enforcing the principle that every person having taxable ability should pay a direct tax to the government under which he is domiciled. It is vastly superior to any form of personal property tax as a means of raising the revenues of government with the greatest equality, certainty, convenience and economy.

Other important considerations in favor of an income tax are that it is fair in principle; that it can be effectively administered by a State, as has been amply demonstrated in Wisconsin and Massachusetts; that it is a form of taxation which meets with popular favor at the present time. The expressions of sentiment at the hearings held by the Commission furnish conclusive evidence of this fact. The same sort of public opinion was reflected in the action of the State Conference of Officials Charged with the Administration of the Tax Laws of New Jersey, held at Trenton in July last, in passing unanimously a resolution approving the adoption of the income tax. It is also to be noted that the income tax is an integral feature of the model system of State and local taxation recommended by the committee appointed by the National Tax Association. The conclusions of that committee, composed as it was of the most eminent tax experts of the United States, surely are entitled to the serious consideration of those charged with the duty of devising improved systems of taxation. In addition to this argument is one which now is of peculiarly practical importance in our State. Many thousands of the citizens of northern New Jersey deriving their incomes from businesses and employments

in New York are liable to the income tax of that State. They will thus be subjected to taxation in two jurisdictions, unless by paying an income tax in New Jersey, they can take advantage of that reciprocal provision of the New York law which would relieve them in part at least from the burden imposed unjustly in another State. Standing alone, of course, this is an argument of little weight in favor of the adoption of an income tax in New Jersey, especially in view of the fact that the objectionable feature of the New York law has been attacked by the Attorney General of New Jersey, and is under review in the United States Supreme Court. If it should be sustained, however, the residents of New Jersey subject to its exactions are likely to be insistent upon some measure of relief.

Our attention has been called to the Survey of the Government, Finances and Administration of the City of Newark, recently completed by the Bureau of Municipal Research. Among the recommendations of the Bureau as to taxation and revenues are the abolition of the tax on intangible personal property, the establishment of a personal income tax and of a business tax.

It must be borne in mind that in suggesting a tax on incomes we are not proposing the imposition of an additional tax, but the substitution of one form of taxation, proved to work fairly and satisfactorily in practice, for another form which works unfairly and unsuccessfully. Thus the purpose is not to increase the tax burden, but to distribute it more equitably. While increasing public expenditures may make necessary the provision of additional revenue or the finding of new sources of revenue, our problem at present primarily is to put the raising of our revenues upon that basis which will insure a contribution to the support of the government from all citizens in proportion to their ability to pay and to the benefits received.

Such an income tax as is here favored would be levied upon persons in respect to their entire net incomes from all sources. It would not apply to business concerns, either incorporated or unincorporated. Such concerns would be subject to a tax upon their business where carried on, in accordance with the plan



hereinafter proposed. This is in line with the model plan proposed by the National Tax Association, and upon full consideration, commends itself to our judgment as best fitted to meet our existing needs. Exemptions should probably be the same in amount as those allowed under the Federal Act. The rates should not be differentiated in accordance with the sources from which the income is derived, but should be progressive, so that the lower rates would apply to the smaller incomes and the higher rates to the larger incomes. The minimum rate should not be less than one per cent., and the maximum not over six per cent. From the statistics which the Commission has been able to study, it is evident that these rates, in addition to the properly graduated business tax, would fully compensate for the loss resulting from the exemption of personal property. This brings us to the phase of the problem which presents some difficulties, namely, the distribution of the income tax. The chief difficulty is, not to find a proper basis of apportionment, but to devise a method which will protect the taxing districts from any diminution of revenue. The plan adopted in Massachusetts to meet a similar situation was the obvious one of providing that the income tax should be so distributed as to reimburse the municipalities for an amount equal to the loss sustained by the exemption of personal property. The same method of apportionment could be adopted in New Jersey as a tentative plan. The actual operation of an income tax act would speedily indicate the most practicable basis of apportionment.

#### TAX ON BUSINESS.

To take the place of the personal property tax levied upon business and industrial concerns, we recommend a tax upon business. This tax should be levied upon the net income derived from business done within the State at the place where the business is carried on. In the case of interstate concerns, the tax should be in proportion to the business carried on in New Jersey. This proportion could readily be determined by practicable methods, such for example as those which have been adopted in New York, Massachusetts and Wisconsin, and which take into account all the factors which must be considered in order to

arrive at a just result. The rate of business tax should be moderate, as, like the income tax, it would be in addition to the tax paid upon real estate. Where it has large tracts of land and extensive buildings, the burden it imposes upon the government is compensated for by the property tax. Like the income tax also, the business tax would be in lieu of the personal property tax, and rates would need to be so fixed as to produce the equivalent of the revenue produced by the source supplanted. The gain to business and industry would be the advantage that would accrue to them from a business taxation which would be fixed and certain, and which would save them from the unequal and unjust exactions which are the outstanding features of the present system.

Here again it should be emphasized that the proposal is not to create an additional burden, but to equalize the burden upon a fair basis. It is undoubtedly true that the effect of the business tax would be to exact a larger contribution for the support of the government from some concerns than they now pay, just as the income tax would inevitably impose heavier burdens upon some of the taxpayers than they now bear. That result, however, would come only in those cases where, under present laws, business is not bearing its just share of the burden. The general result would be a more equal distribution, and there would be no shifting of the burden save in those instances where the shifting is in fairness essential to that result.

We realize that the recommendation that the personal property tax be abolished and that an income and business tax take its place may seem to many people revolutionary measures. They are in fact revolutionary in the sense that they would change radically present conditions. But radical changes are needed to produce satisfactory results.

If radical changes are not to be made, we feel strongly that the present system should be let alone. There should be no tinkering that does not go to the root of things. A mere scratching of the surface here and there will accomplish nothing worth while.

It is a fact that cannot be controverted that the personal property tax is not working satisfactorily and successfully in this

State. We believe it to be equally true that it cannot be made to work successfully and satisfactorily. We are sure that the income tax and business tax will work with much greater success and satisfaction. We base these conclusions upon the experiences of other States, upon the opinions of practically all tax officials and experts, and upon our own study of the subject with special reference to the operation of the system in New Jersey.

The situation is tersely summed up by Mr. Justice Charles C. Black in his excellent work on "New Jersey Law of Taxation," where he says:

"The system of taxation now in force, for raising the local revenues, by which everything is attempted to be taxed and valued at one uniform rate, except certain classes of property, declared exempt from taxation by statute, may have answered the requirements of the times and conditions of society when adopted. The truth is, the later system, like the former, has completely broken down in practice, and for the same cause, viz., it is an impractical theory; and experience abundantly demonstrates the fact that it cannot be applied successfully under the present complex conditions of the body politic, and to all the many and varied forms which property now assumes. Modern inventions, the natural development of the country, the rapid growth of our cities, the enormous increase of corporations and corporate property, have created and produced so many different classes of property, so easily and readily concealed from the eye and grasp of the assessor, and so readily moved from place to place and from State to State, that the attempt to assess and value all such property by the same machinery and process of former years, is a comparative failure, particularly so in the growing cities."

#### IMPROVING METHODS OF ASSESSMENT.

There is practical unanimity of opinion as to the imperative need of improving our methods of assessment. Any system of taxation will work well or badly in proportion to the extent to which the primary assessment is good or bad. The initial



steps therefore are the most important in the whole taxing process. This fact has general recognition in theory, but is given scant consideration in practice. All boards and commissions and special investigators who have studied the subject agree that much should be done and that much may be done to improve the work of local assessment. Among the suggestions which have been made to this end are that assessors should be appointed rather than elected; that they should have reasonable tenure of office, and that they should be better paid. We concur in all these suggestions, but must point out that none of them nor all of them together will necessarily produce better assessments. Much will still depend upon the personal equation. Two things are essential: First, that the assessor shall be competent and courageous, and, second, that he shall have efficient aid and direction in the performance of his duties.

The first qualification might be fairly well insured by making a civil service examination requisite to appointment. The second should be provided by means of a thorough system of supervision, under State control, modelled on the Wisconsin plan. The State Board of Taxes and Assessment should be empowered to divide the State into a small number of assessment districts, having regard to population and property valuation. Most of these districts could comprise more than one county, and they should be so arranged that no county would be divided. For each district there should be appointed a supervisor of assessments selected from civil service lists, after competitive examinations, and, so far as practicable, chosen from the districts in which they are to serve. Such supervisors should be required to give their whole time to their duties. They should be clothed with adequate authority to supervise and direct and co-operate in the work of local assessors. They should have all the powers of the local assessor for the examination of persons and property and for the discovery of property subject to taxation. They should have the power, under the direction of the State Board, to value and re-assess property; to add to the tax lists property omitted. They should also be required to examine and test the work of local assessors during its progress, and to report

to the State and county boards the relative assessed and true value of property in each taxing district, giving in detail the data and other information on which their estimates are based.

It will be argued, of course, that the adoption of the plan here proposed would create new offices and increase the public payroll. That is true. While in these times, when the cost of government is an undoubted factor in the high cost of living, we should be exceedingly cautious in making new requisitions upon public revenues, the additional cost of assessment involved in the recommendation above briefly outlined would, in our judgment, speedily justify itself, not only in a better administration of the tax laws, but in materially augmented public revenues. No private business concern would hesitate to increase its cost of operation when the returns therefrom were so certain and substantial as those which would surely come from putting our system of assessment upon a proper basis.

It may be urged, too, that if we should adopt the income and business tax in place of the personal property tax, the local assessors would be relieved of a large part of their present burden. That also is true, but in that event the district supervisors could serve as assessors of income, and, in addition, co-operate in the valuation of real property.

It is undoubtedly true that in New Jersey, as in all other States, up to a relatively recent period, the function of the assessor has not been accorded the attention it clearly deserves in the structure of fiscal systems. The position of assessor has been generally regarded as an office of minor significance. As a matter of fact, it is, in certain vital respects, the place of greatest importance in every government. This is especially true in those jurisdictions, like ours, where the plan of the general property tax prevails. Primarily, the assessor is clothed with plenary powers in determining the portion of the public burden which every person shall bear. The provision made in our statute for a review of the assessor's judgment is intended to safeguard the taxpayer from unjust or inequitable exactions. This purpose is achieved in those specific instances in which the taxpayer invokes the right of appeal. But the correction of

erroneous assessments by reviewing boards can never do exact justice or be more than a partial remedy in a small number of sporadic cases. The power of review is essential to any system of assessment, but it is a cure, rather than a preventative of tax ills, and in the field of taxation, no less than in the domain of physiology, preventatives are much to be preferred to cures.

It is of first importance, therefore, that the assessment of property should be placed upon the highest plane of efficiency. The plan we propose for effective supervision of the work of the primary assessment will, if adopted, unquestionably bring about a vast improvement in the valuation of property for taxation, and a consequent betterment in the operation of the entire system. Indeed, adequate supervision is second only in point of importance to the initial process in taxation.

The plan of having one or more local assessors or a board of assessors for each taxing district is a feature of the present system which cannot be regarded as ideal, but it is one which probably will have to be accepted as the best that can be secured in the present state of public opinion. Each taxing district is a distinct governmental unit, and popular sentiment runs strongly against any proposal which seems to restrict or interfere with the right of home rule. For this reason, suggestions which have been made that assessment districts be enlarged always have met with vigorous opposition. It is true that, as the State and county, equally with the municipality, have a substantial interest in the taxation of property, the making of the assessment is not a matter purely of local concern. An improper assessment does injury, not only to those taxpayers who are immediately affected by it, but is a public wrong whose consequences are suffered by all other taxpayers. Home rule in the assessment for taxation is a palpable misnomer, and does violence to the principle of equality and uniformity required by the Constitution. So strong, however, is the attachment to the sentiment that in taxation, as in all other activities within the municipal sphere, local control should be recognized, that we deem it futile at this time to recommend any change in the scheme for making the primary assessment. We are the more willing to acquiesce in the continuance



of this plan for the reason that we are satisfied it can be made to work satisfactorily under the supervisory direction we have proposed. We are, however, prepared to urge strongly certain important changes in the existing system with respect to the selection and tenure of the local assessor. These are that the assessor be appointed rather than elected, that his compensation be made commensurate with the duties of the office, and that he shall not be removed except for proved incompetence, neglect of duty, or violation of the law or rules applicable to the position.

#### APPOINTMENT OF ASSESSORS.

The power of appointment should be lodged in the local governing body. The choice made in that way is more likely to give greater consideration to special fitness for the office than the voters can possibly give in the hurly-burly of a general election. The responsibility for the selection, moreover, is centralized, and is likely to be exercised with due regard to the public interest. The assessor also is protected against the temptation so to use the powers of his office as to promote his prospects as a candidate in a subsequent campaign. The likelihood of this result would be strengthened by coupling with the appointment the provision for tenure. This would insure the continuance in office of competent and efficient assessors. It would gradually build up a strong personnel in the assessing body. It would go as far as it is possible to go in the direction of divorcing the position from politics. Assessors, assured of tenure, so long as they diligently and efficiently performed the duties of their office, and freed from the sway of political consideration, would tend to become specialists and experts in the appraisal of property.

We do not say that this would be the inevitable result, or that this plan would prove an infallible and complete solvent of the assessing problem. But we do insist that its tendency would be strongly towards radical improvement, and that it would constitute a decided step in advance.

## TENURE FOR ASSESSORS.

We recommend that the provision for tenure apply to local assessors now in office.

It may be argued that the adoption of this recommendation would continue the incompetents in office. That is true. It would, however, also continue the competent assessors, of whom there are very many in the State. The unfit would not long survive the requirements of the new order. Here again, it must be emphasized that our recommendations with respect to the appointment and tenure of assessors are contingent upon the adoption of the plan we propose for supervisory control by a central authority clothed with effective powers. This, in our judgment, is absolutely essential to any real improvement in the method and manner of assessment. It is just as idle to expect that a fiscal system will function properly when its basic operation is free from any effective control as it would be to expect a railroad system to run successfully which treated each train as a separate unit and provided no central management for the direction of its conductors and enginemmen.

With such supervision as we suggest, we are satisfied that the present body of assessors can be made the nucleus for an assessment personnel having a high order of efficiency. Under such conditions, we are prepared to guarantee that result.

As to the salaries to be paid to assessors, we cannot do more than make the general recommendation that they should be compensatory; that is, that the salary should have some such relation to the extent and importance of the duties of the position as that which usually is recognized in private employment. There is no taxing district, however small, which could not afford to pay to a good assessor a proper compensation. There is no taxing district which can afford to pay to an incompetent or unfit assessor any wage at all. Our proposal that the pay of assessors be put upon a higher level is conditioned upon the putting of the assessors themselves upon a higher plane of efficiency.

This is a phase of the problem as to which we need not indulge in mere theorizing. Experience shows that invariably the best



assessing work is done in those districts where the assessors are appointed and where they are relatively well paid.

#### ABUSE OF EXEMPTIONS.

The exemptions of property from taxation constitute a phase of our taxing problem which ought to have very serious consideration. Each year the amount of property which escapes any share of the tax burden assumes larger proportions. The total exemptions for 1919 were \$300,539,279. Deducting from this sum the value of \$119,673,715 assigned to public property, which does not include \$69,502,691 of public school property, the total of other property exempted was \$181,865,564. The total loss of taxes on this amount of property, figured at the average rate, was \$5,188,625. That loss was equivalent to an additional burden upon taxable property.

The policy of exempting certain property from taxation is firmly established in New Jersey, as well as in other states, and is grounded upon sound principles. To tax public property, for example, could result in no saving to the taxpayer, since such a tax would be paid by the public itself. The exemption of purely charitable institutions likewise proceeds upon the theory that such institutions render a service which would otherwise constitute a charge upon public revenues. In the gradual extension of the list of exemptions, however, it is to be feared that this fundamental principle has not always been borne in mind, with the result that the general burden of taxation has been unjustly increased. We would therefore recommend a drastic revision of the tax-exempting statutes, with a view to restricting them to only such property as shall clearly meet the test of giving to the general public an equivalent for the immunity from taxation. In the matter of exemptions, the aim of the State should be justice to all the people, rather than generosity to a few.

The legislative policy has been to exempt buildings used for certain purposes and the land whereon they are situated.

We recommend that there shall be such legislation as will prevent what amounts in practice to an abuse of this policy. It

should be provided that the extent of the land exempted from taxation shall be limited to small areas clearly defined by statute. The present provision is that the land necessary for the fair use and enjoyment of the buildings shall be exempt, not exceeding five acres in extent. The effect of this provision is to take out of the assessable jurisdiction of some districts large tracts of valuable land, and thereby very greatly increase the burden on the taxable land. The service rendered by the property thus favored, which is supposed to justify the immunity from taxation is rarely confined to the community in which it is located, but which, nevertheless, is compelled to bear the direct consequences of the exemption allowed. The effect of this policy is to work very real and serious hardships in certain municipalities. For this reason, we recommend drastic limitations upon land exemptions. No land should be exempted except that on which stands a building used for a purpose entitling it to the exemption, plus an additional allowance of fifty feet on all sides. The suggestion of fifty feet is of course largely for the purpose of illustration, although we believe that the allowance should be neither very much smaller nor very much greater.

The exemption of cemeteries furnishes another conspicuous example of an unwarranted increase in the general tax burden. The statute limits the exemption of graveyards to ten acres in area, but there is absolutely no limitation with respect to cemeteries. In some sections of the State, considerable areas of land have been acquired for cemetery purposes, with a prodigal provision for the mortuary needs of the future, but with no consideration for the interests of living taxpayers. It is, of course, the part of prudence to set apart lands for burial purposes in excess of present requirements, but there is no sound theory upon which lands so held by private corporations should be freed from their just share of the public burden. This privilege should be confined to the actual space occupied by graves and monuments plus an equivalent area and to all lots actually sold to bona fide purchasers.

It must be borne in mind that all exemptions from taxation are in effect a contribution from the public revenues to the favored object. It is a question whether it would not be in the

public interest to abolish all exemptions of private property, and, by direct appropriation, measure the community obligation to those institutions which render a public service. Such a policy would undoubtedly tend to a more careful scrutiny of the claims for government aid, and result in a more equitable incidence of that portion of the tax burden which is due to the giving of such aid.

We have given very careful consideration to the evidence and arguments submitted to the Commission on behalf of the proposal to abolish, either in whole or in part, the tax on improvements. The most insistent advocates of this change in our basis of taxation have been the adherents of the single tax theory. The arguments which they advance in support of their position are ably summarized in the minority report of Mr. Record. Primarily, the proponents of this plan favor a reduction in the taxation of improvements because they believe it is a step in the right direction—that is, a step toward the total exemption of buildings.

Experiments in Australia and northwestern Canada with the single tax or a modified form of the single tax, and of Pittsburgh and Scranton with the so-called "Graded Tax," have been pointed to as practical demonstrations of the successful operation of this taxing scheme.

The disinterested testimony which we have been able to take with respect to the effect of these experiments has not been sufficient to enable us to form a final conclusion, either as to their ultimate success or failure. The impression made upon impartial minds by all the available evidence is that the results have been inconclusive. This certainly was the impression received by the majority of the Commission from the investigation which we made as to the operation of the graded tax law in Pittsburgh. We could find no evidence there that the plan of gradually reducing the tax rate on buildings had thus far had any decisive effects one way or the other. It is only fair to say that the test has been conducted under the abnormal conditions due to the war, and that several years must elapse before the maximum reduction in rate will be reached, and its full effects



felt. The testimony of witnesses who appeared before the Commission indicates that those who advocated the adoption of the graded tax in Pittsburgh are satisfied with the results of its operation, and that those who originally opposed the plan have not changed their attitude. The fairest judgment that can be passed upon the Pittsburgh plan is that it is an experiment which has yet to justify itself by practical results, but which is well worth watching.

It would be very interesting to have some State embark upon the experiment of the single tax, but in view of the certain hazards of such a venture, we should prefer to observe the operation of the plan in another State than New Jersey.

The Commission has decided not to submit bills to carry into effect any of its recommendations. The drafting of such bills involves an immense amount of difficult labor, and the employment of expert skill. This work should be done in co-operation with the appropriate legislative committees, and only done at all in the event that the Legislature is convinced of the necessity for such legislation. The Commission suggests, therefore, that by joint resolution this Commission or another commission be authorized to draft such changes in our taxing system as the Legislature shall deem desirable. By this plan the Legislature would specifically indicate such tax reforms as it is prepared in principle to approve, leaving the details of the proposed laws to be worked out by draughtsmen designated for that purpose, functioning in conjunction with its own committees.

The advantage of this plan of procedure would be that the efforts of all concerned could be concentrated upon the framing of measures which would have a reasonable prospect of final passage, and no time or energy would be wasted in drawing bills which would have no chance of favorable consideration in the lawmaking body. By prompt action, it ought to be possible to frame such measures as the Legislature may wish to consider and submit them in time to be disposed of at the present session. Even if this could not be accomplished, the great importance of the subjects to be considered would fully warrant the expenditure of any additional time that might be essential to their study and the reaching of wise and well-balanced conclusions.

## RECOMMENDATIONS SUMMARIZED.

Summarized, our recommendations follow:

1. The abolition of the personal property tax and the substitution therefor of a tax on income and a tax on business.
2. The effective control of local assessments by supervisory agencies invested with adequate powers.
3. The appointment of local assessors by the governing bodies, with tenure and adequate salaries; the present assessors to continue in office.
4. The lands exempted from taxation to be materially restricted in area.

Respectfully submitted,

FRANK B. JESS,  
ARTHUR N. PIERSON,  
GEORGE T. SMITH,  
GEORGE L. RECORD,

(With reservations as hereinafter stated)

CLARENCE E. CASE.

(With reservations as hereinafter stated)



## Minority Report by Mr. Record.

---

I find myself under the necessity of submitting a minority report, owing to the fact that I am unable to agree with the majority of my colleagues in the plan for the substitution of an income tax for the personal property tax.

I regret to differ with my colleagues upon the income tax question, because I am satisfied they have given the subject very careful study, and they are men whose judgment commands my respect.

While I heartily endorse the recommendation of the majority of the Commission for the abolition of the personal property tax, for the reasons stated in the report and for other reasons, I am, however, constrained to advise the Legislature against the adoption of a State income tax for the following reasons:

1. It violates the principle upon which I think we should readjust our system of taxation, to wit: the idea of attracting people to New Jersey to establish businesses and build homes, by offering superior attractions to business men and home-seekers in the matter of taxation to those offered by other States in the Union, and particularly Pennsylvania and New York. New York has adopted the State income tax, and if we adopt it we can offer no superior advantages over New York in that respect. On the other hand, Pennsylvania not only has no State income tax, but in all of its industrial centres personal property, such as machinery and stocks in trade, either is entirely exempt from taxation or carries only a nominal tax, while in the great cities of Pittsburgh and Scranton, not only is personal property entirely exempt from taxation, but they also have a graded building tax law under which the assessments on buildings are being reduced gradually until the assessment on buildings shall finally be fifty per cent. of full value, while the land tax assessments remain at full value.



If we adopt the income tax, therefore, we lose all chance of securing an advantage in taxation in competition with New York, and are heavily handicapped in competition with the more favorable tax conditions established in Pennsylvania.

2. A State income tax has many admitted defects. In order to enforce it we will have to set up a bureau of collection, which will grow in size from year to year, and finally become very expensive. This bureau will pry into everybody's business, turn an army of inquisitors upon the business men of our State, and all the secrets of every business man of the State will be on file at Trenton, subject to the inspection of any competitor who can get the ear of powerful politicians. The evil possibilities of such a condition are obviously very great, and the danger of such information being used for political or other wrongful purposes is apparent.

3. The greater part of the personal property tax of this State is collected from manufacturers. The small householder and rent payer is either not taxed at all or pays a very nominal tax, or is allowed to evade the tax. The substitution of an income tax for the personal property tax, therefore, would enable the large manufacturers to shift a part of their tax burden upon those less able to pay taxes, instead of shifting it upon the owners of idle land, where it would encourage development and business.

4. An income tax carries a constant temptation to perjury in making up false returns, and this temptation is in direct proportion to the amount of the tax to be paid. The result is likely to be the constant evasion of this tax on the part of many unscrupulous men who are most able to pay it, and the full collection of the tax on the part of those less able to pay it, who are too honest to evade it.

5. The imposition of an income tax is in violation of the principle that should obtain in all tax reforms, to wit: simplicity, economy and certainty of collection. The income tax, instead of simplifying our tax system, adds a new tax which can only be collected by the creation of another complicated, expensive and inquisitorial State bureau.



6. The method of administering the income tax recommended by my colleagues is that the tax should be first collected by the State, and then distributed to the municipalities so as to make up to each municipality the deficit created by the abolition of the personal property tax. It is admitted that the effect of this would be that money will be collected in income taxes from the citizens of many municipalities in excess of the deficit created by the abolition of the personal property tax in those municipalities, and that this excess money will in turn be paid by the State to other municipalities where the income tax collections will be less than the amount of the present personal property tax. This in effect enables the citizens of one community to levy a part of their local taxes upon the citizens of other communities, which is an injustice so glaring that it is not likely to be long endured.

7. There is no necessity for substituting an income tax for the personal property tax. Our investigations show that if the tax on personal property was abolished and the deficit made up by increasing the rate upon land and buildings, eighty per cent. of the deficit would be paid by the same people who now pay the personal property tax. The amount of personal property taxes throughout the State is approximately \$13,000,000, which is only fifteen per cent. of the total taxes on property in the State. The shifting of twenty per cent. of this tax, which would be only \$2,600,000, from those who at present pay to other taxpayers, would be very easily absorbed. The abolition of this tax would therefore involve only a very slight increase in the tax rate, and if we shifted this tax to the land values alone it would result in an actual decrease in the amount of tax paid by the great majority of our taxpayers. It is thus apparent that we could abolish the personal property tax and absorb the deficit by increasing the tax rate on real estate without any disturbing shock to industry or property interest, while the increased rate upon land values would be a distinct advantage for reasons hereinafter set forth. The ideal method is to make up the personal property tax deficit by increasing the tax upon land values.

It seems to me clear, therefore, that it is plainly in the interest of the State to make up the deficit from the abolition of personal

property taxation by increasing the rate upon land and buildings (preferably upon land), rather than to resort to the cumbersome, expensive, inquisitorial, bureaucratic experiment of an income tax.

These facts and reasons seem to me to show clearly the unwisdom of the adoption of the income tax as a part of our taxing system in this State at this time.

#### LAND VALUE TAXATION.

The most important and the most promising improvement in our tax system would be the abolition of all taxes, not only upon personal property, such as merchandise, stocks in trade, raw material, machinery, agricultural and other tools, and trade, raw material, machinery, agricultural and other tools, and the live stock and crops of farmers, but upon all buildings and other improvements upon land, and raising all taxes for local purposes by increasing the rate of taxation upon land values. The arguments for this taxing method can be summarized as follows:

As a mere fiscal method it is the simplest, most economical and most just of any form of taxation. Land lies out-of-doors, and its value is generally known and established by frequent sales. It is therefore the easiest kind of property to correctly assess, and the tax is for the same reason the hardest to evade. If our assessors were required to assess nothing but land, the cost of assessing taxes would be reduced to a minimum, and the necessity of yearly inspections of buildings and property of all kinds, with the liability to error and the possibility of favoritism and corruption, would be entirely eliminated.

The exemption of buildings, improvements and personal property from taxation, if adopted by New Jersey, would give this State a very powerful advantage in competition with New York and Pennsylvania in attracting men who wish to build homes or establish businesses. The reason of this is that under this taxing system, while the rate of taxation would be larger and the actual amount of taxation levied upon any particular

piece of land would be increased, the total tax paid by the average owner of business improvement or by the average home owner, would be materially less than the existing tax at the lower rate, which covers land, buildings and personal property. In a general way this tax would work out so that any person whose building and personal property values were assessed higher than the land values, would save in the amount of his actual tax bill, and any person whose improvements and personal property values were assessed lower than the value of the land, would pay more in taxes.

Therefore, as long as the other States in the Union, particularly New York and Pennsylvania, retain the system of taxation of buildings, improvements and personal property, if we exempted such property from taxation, we would be able to hold out a material advantage over such States.

That this idea has real substance is proved by the fact that one of the great Trust Companies of Baltimore, Maryland, has been putting display advertisements in the New York papers calling attention to the fact that Baltimore is now offering the inducement of substantial exemptions from taxation of improvements and personal property, and the financial institutions of many of the Northwestern Canadian cities where this system has been adopted in whole or in part, extensively advertise this tax exempt feature as a powerful reason for the location of business men and home seekers in their localities.

It is my personal judgment that if we adopted this system in New Jersey the result in a very short time would be to at least double the population of the State, with a resulting prosperity to the State which can be secured in no other way.

The effect of exempting buildings and personal property from taxation would be to offer a premium upon improvements and the building of homes and the establishment of businesses, and to reverse our present stupid policy of penalizing industry, thrift and improvement, and offering a reward for the holding of land out of use. In the last analysis all wealth comes out of the land. Every piece of idle land is therefore a potential source for the employment of labor and the production of additional wealth. Our present system, by undervaluing land and taxing



the man who makes an improvement upon land, or produces wealth, according to the value of his improvement or wealth production, puts a premium upon holding land out of use, and thus obstructing production, and puts a penalty upon those who use land for the production of wealth.

There is nothing more stupid and unbusinesslike than this feature of our taxing system. In the case of personal property the glaring injustice of this proposition has become so plain that public opinion now demands the abolition of this tax, but the same principle applies to the taxation of buildings or other improvements upon land.

The primary object of taxation is of course to raise money to defray public expenses, but taxation carries with it what the economists call "the incidence of taxation"—that is to say, certain taxes have certain effects besides that of raising money. A familiar illustration is that of the protective tariff. We not only collect money towards the expenses of our national government by our tariff system, but the effect of the tariff is to protect American industry as it is called, that is to say, to encourage it. In the case of the tariff those who believe in protection argue for the system upon this express ground, that the "incidence" of the tax puts a premium upon American business. The same argument applies in an exactly reverse way to the taxation of personal property and buildings and improvements. The "incidence" of this tax is to discourage enterprise, thrift, improvements and business.

The land value tax has the precisely opposite "incidence" or effect. It encourages the devotion of land to its most productive use, and by exempting the products of labor and capital from taxation puts a direct premium upon the creation of wealth by labor and capital.

Under the land value tax system no owner of idle land would have any hope that it would increase in value, as the increase in the value of land which would accompany the growth of the community would be absorbed by the community in the tax.

Therefore, there would be no inducement to hold land for speculation or as an aid to monopoly. The owner of idle land

would be under a continual pressure either to devote it to its most profitable use, or to sell it to somebody who would. Theoretically, taking the country over, there is more land than there are people to use it, but if we applied this principle in New Jersey, in my judgment every acre of land in our State that is capable of productive use would find a ready demand from the hundreds of thousands of people who would come to the State, attracted by the opportunities for business and homes offered by this new taxing system.

The land value tax would put an end to the unjust appropriation by private owners of the values of land which are created, not by the owner, but by the growth of the community and the enterprise of its citizens. Under the present system men are tempted to hold land out of use in the confident belief, justified by experience in most cases, that the continual growth of the community, the expenditures of citizens and corporations in the erection of improvements, and the creation by the municipality of municipal improvements, will enhance the value of the land so owned without any effort on the part of the owner, so that in a reasonable number of years he can reap a great profit. Such investments involve no employment of labor and no benefit to the community. Under this system men reap where others have sown—they get something for nothing. A system which permits this result is plainly an immoral system, and should be abolished in the interest of common honesty.

A national example of this point can be seen in the fortunes of the Astor family and the old land owning families of New York.

A conspicuous example in New Jersey is seen in the result of the construction of the Hudson River McAdoo Tubes. Large sums of money have been realized in the vicinity of some of the stations of this Tube, especially around Summit Avenue in Jersey City and the Park Place terminal in Newark, by landowners who never contributed any service or risked a dollar in the construction of the Tubes.

A conspicuous illustration occurred in the vicinity of the Summit Avenue Tube station in Jersey City. Arthur Brisbane, the

well-known journalist, bought some land adjoining the Hudson Tubes for about \$50,000, and the other day he leased it for a period of twenty-one years at a rental which nets him six per cent. upon \$250,000. As the lessee is to build the building and pay all taxes, Mr. Brisbane has thus added to his fortune over \$200,000 without rendering any service of any kind in return.

All profits made by speculation in land involve this element of getting something for nothing. The injustice of this system is emphasized as applied to this particular improvement by the fact that the men who furnished the money for the building of the McAdoo Tubes lost heavily as the result of their investment because of the fact that the improvement cost more than was estimated. These men risked their money in the construction of a most marvelous improvement which contributes to the convenience and comfort of hundreds of thousands of our people, and has brought into our State a very large number of people. As a reward for this service we pounce upon this company and penalize it several hundred thousand dollars a year in taxes, although the improvement is underground, occupies no valuable space, and requires very little or no municipal expense for fire, police or other protection, and we allow the direct money benefits of this gigantic enterprise, represented by increased land values, to go into the pockets of speculators who never contributed any service or risked a dollar in the carrying out of this great enterprise.

The same principle applies, only in a less dramatic manner, to every transaction in land by which a speculator absorbs a profit.

This feature of our existing taxing system is the most powerful factor which holds back the development of our civilization. It keeps out of use land which ought to be devoted to the production of wealth, and thereby prevents the creation of an immense number of jobs for idle or underpaid men, and greatly diminishes the total possible production of wealth for distribution among our people. It is the most powerful single element working at all times for the increasing of the cost of living, the creation of unearned fortunes, and the shutting off of opportunities for the profitable employment of men.



Fortunately, we are not compelled to rely solely upon the foregoing reasoning, powerful as it is, in support of the land value tax. Various applications of it in actual practice have taken place in different countries of the world. It has for twenty years been making steady progress in the municipalities of Australia, always with satisfactory results. Many of the municipalities of Northwestern Canada, including some large cities, have for several years exempted buildings and personal property of every kind from taxation, and raised all of their municipal taxes by a single tax upon land values.

An analysis of the land assessments of various Northwestern Canada cities affords a graphic illustration of the way our land values are under assessed. Canadian cities of over 50,000 inhabitants show an assessment for land values of from \$900 to \$1,200 per capita, while the large cities of New Jersey average a per capita assessment of land values of not exceeding \$500. We are thus in practice exempting land values to the extent of fifty per cent., while the recent tendency has been to push the assessment of building values close to one hundred per cent. This system in Canada, so far as I can learn, has met with general satisfaction, except only among those whose sole business is to speculate in land.

The cities of Pittsburgh and Scranton have also commenced to apply this system. The Commission visited Pittsburgh, and the facts there ascertained are substantially as follows:

In 1911 the city of Pittsburgh commenced to exempt machinery and stocks in trade and raw materials used in manufacture. In effect in that city this amounted to the practical exemption of great numbers of manufacturing plants for the reason that much of the business of Pittsburgh is confined to various manufacturers of iron products, and such factories consist mainly of expensive machinery protected from the weather by a building which is nothing but a shed. A plant worth a hundred thousand dollars will often be composed of machinery worth \$95,000, with a building costing not more than \$5,000. This plan worked so well in Pittsburgh that in 1914 the policy was adopted of reducing the taxes upon buildings ten per cent. every three years until the assessment should finally reach fifty per cent. of full value.

Three increments of ten per cent. each have been deducted so far from the assessed values of buildings. The first effect of this law was that the assessors showed a tendency to increase assessments of buildings, which had theretofore been under assessed, at least as much as the amount of the deduction required by law. This in effect was nothing but remedying the administrative defects of the former system, but it necessarily temporarily retarded and obscured the effect of the law requiring the reduction of building assessments.

The significant and controlling fact which came out in our investigation, however, was that during the first three years after this law passed, a vigorous attempt was made in the Legislature each year to repeal the law, but now it is impossible to get any member of the Legislature from Pittsburgh or Scranton districts to introduce a repealer of the act. To all those who understand politics this means that the beneficial effects of the law have become plain that no representative of the people dares to risk his popularity by standing openly for a repeal of the law.

Baltimore, under a State local option tax law, has adopted the system of exempting buildings and personal property from taxation, and, as I have heretofore shown, is using this tax advantage as a powerful argument to induce manufacturers to come to that city. The owner of a \$20,000,000 plant in Bridgeport, Connecticut, is quoted as saying in a public speech in Baltimore the other day, that if he removed his plant to Baltimore, the saving in taxation under the Baltimore system of exemption, would pay two-thirds of the cost of his plant in twenty years.

#### OBJECTIONS TO THE LAND VALUE TAX.

It is pertinent to consider some of the objections to the land value tax:

1. It is said that land and real estate generally cannot carry any larger burden of taxation. The fallacy of this argument is the assumption that land, buildings and personal property pay taxes. Only human beings pay taxes, and all taxes paid upon



personal property or other improvements are promptly shifted to the consumer, and while a large amount of land is held out of use for speculation, the tax upon improved land is also shifted to the consumer. If we abolish the tax on personal property and make up the deficit by increasing the tax upon buildings and land, this tax is collected by the first payer from the proceeds in rents. The change advocated in our system of taxation does not change this fact, but the only difference would be that a portion of the taxes now paid by those who have improved property would be shifted over on the shoulders of owners of idle and unimproved land, which is in every way a benefit to the community, even if it involves a loss to the landowner. As most landowners are also engaged in other business, any loss they might suffer in the value of their land would be made up in the general prosperity of the business in which they are interested. The land tax, by taking the tax off buildings, would lower rents for business and dwelling spaces, and to that extent would be equivalent to an increase in wages or in business profits.

2. It is said that there would be such a stimulus to building that it would result in over building. That is a characteristic of the present system. Every few years our communities become over-built, and then a financial panic or depression results in a period of stagnation. Certainly the new system could not be any worse than the existing system in that respect. As a matter of fact, under any system people construct buildings when in their judgment they can be rented or sold with a profit, and they will always do so. No one owning land will build a building upon it under the new system unless he is convinced that it will net him a profit. Under that system he may be mistaken, as he often is under the present system, but it is not the business of the State to guarantee him against mistakes in judgment. In view of the abnormal shortage of houses and buildings of every kind in every city of our State, the danger of over building is not a serious argument.

3. It is claimed that this system will operate to inflict loss upon men who own land. The answer is that the wisdom of the system must be determined by the question whether or not it will

contribute to the common good; if so, any incidental damage to individuals must be endured. To say otherwise is to hold that projects for the common good cannot be carried out if they result in the financial injury of anybody. The abolition of slavery and the prohibition law are illustrations in point. The greatest good to the greatest number is always a sound rule in a democracy, which individual losses cannot be allowed to obstruct.

4. It is claimed that the land tax, by inducing every landowner to make the most profitable use of his land, will lead to congestion in living and business buildings. The answer to this is that the crowded tenement and the business skyscraper are the two leading characteristics of the present system. The change in policy which I advocate would tend to bring into active use land which is now held out of use, and necessarily the tendency of this system must be the very reverse of congestion; the tendency would be to scatter improvements and to use more land, particularly in home building, because the owner of a building could use more land than is now used and still pay a smaller tax bill, while the general effect of the system would be to make land cheaper in the end.

Respectfully submitted,

GEORGE L. RECORD.

## Minority Report by Senator Case.

---

In the final analysis, the best form of tax is that which best suits the taxpayer. Taxes are the contribution of the citizen to the expenses of operating the State, and the preference of the citizen should be considered in selecting the tax method. It appears that the problem before us is not merely one of devising more equitable methods of raising the same sum of money that is available at present; public disbursements have reached the point where additional funds must very shortly be forthcoming.

Elsewhere in this country experiments with the income tax (except the Federal Income Tax) have been supplemental to and not in substitution of the personal property and other taxes. The proposal in the majority report is to wipe out the personal property tax entirely and to substitute in lieu thereof a combination of income tax and business tax.

I am not prepared at this time to subscribe to that recommendation, for the reason that in my opinion we have not sufficient data upon which to base the ultimate workings of the change in this State, and for the additional reason that there has not been a sufficient consideration or expression of opinion by the people and the press to indicate that the change will meet with popular satisfaction. There is nothing that concerns the people more closely than the question of taxes, and in my opinion no radical change should be made in the taxing system until the proposed change, with its definite provisions, has been before the public for a sufficiently long period to indicate an unmistakable trend of opinion. It is certain that a great deal of State machinery will be necessary to collect the income tax; that the return therefrom will not net the several communities in the same proportion as those communities now receive their funds, and that an artificial division will need to be adopted. It is obvious that a community that produces a volume of tax from which

appropriation is made to other communities will resist that method and ultimately overcome it.

Even the proponents of an income tax are by no means unanimous in favoring the form of income tax that is suggested in the majority report. The Jersey City Chamber of Commerce gave very careful attention to the work of this Commission, and recommended an income tax at a flat rate. The representatives of the Chamber of Commerce reported against an income tax unless at a flat rate. The proposal in the majority report is for a minimum rate of one per cent. at the lower levels of income, and not over six per cent. at the higher levels.

Nor have we adequate data upon which to base the volume of money that is to be produced by the business tax which it is proposed to levy upon corporations in lieu of the income tax, the latter tax being proposed for individuals only.

My conclusion with regard to the proposed income tax and business tax is that we do not yet know enough about their operation in this State, or about the attitude of the public mind toward them, for us to advocate placing them upon the statute books at this time. Haste had best be made slowly.

I am not prepared to acquiesce in the recommendation that the State be divided for assessment purposes into a small number of assessment districts, under the control and supervision of the State Board of Taxes and Assessment.



## Supplementary Statement by Mr. Jess.

---

I am of the opinion that there are sound reasons for classifying improvements upon land for taxation and giving all the property in that class the advantage of a differential in the rate. There is a distinct basis for differentiating between land and the improvements upon land. Land held in private ownership renders no service to the public. It is a public asset only to the extent to which it contributes, through taxation, to the support of the government. On the other hand, buildings serve many useful functions. As dwellings, as marts of trade, as the centres of industry and production, they contribute to the wealth and welfare of the community. At the same time, they impose upon government the chief burden of community service, such as that of providing schools, streets, lighting, police and fire protection. The primary purpose of taxation is to raise revenue for the support of the State. Upon the soundest principles, therefore, the policy is justified of levying upon that class of property which, from its nature and use, occasions a large part of the public expenditures, a fair proportion of the taxes essential to provide for them. There still remains, however, the element of service which should entitle these buildings to special treatment in our taxing scheme.

I also favor a tax on the unearned increment in land values.

All vacant land, it is true, is not held out of use for speculative purposes. Much of it is held by its owners, not from choice, but from necessity. It is held because there is no market for it. In many cases where such land is sold, the price received by the seller represents little, if any, return on his investment. Such land is not held out of use, but is held for use.

On the other hand a great deal of valuable land is held by the owners simply for the profit that will accrue to them from its sale at the increased value resulting from social demand in the future. Again, either because of fortuitous circumstances,

or because of advance information of favorable developments to come, speculators are enabled to make large gains in land transactions. Thus it frequently happens that the selling price of land is greatly in excess of its assessed value and of what may fairly have been estimated to be its market value. These increases in value should be subject to a surtax. The inevitable tendency of such a tax would be to discourage speculation in land and to result in assessments more nearly approximating true value. In addition, it would assure to the community a substantial share in the value which the community helped to create.

What I here advocate is not that land values shall be confiscated by the community, but that the community shall take a part of the increment which results from social demand, and not from the efforts of the owner.











RETURN TO DESK FROM WHICH BORROWED

# DOCUMENTS DEPT.

This book is due on the last date stamped below, or  
on the date to which renewed.

Renewed books are subject to immediate recall.

35628

JAN 1 1 1960

LD 21-100m-6,'56  
(B9311s10)476

General Library  
University of California  
Berkeley

